Energy UK

BEIS Green Gas Levy Consultation

2 November 2020

Introduction

Energy UK is the trade association for the energy industry with over 100 members spanning every aspect of the energy sector – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

We represent the diverse nature of the UK's energy industry with our members delivering over 80% of both the UK's power generation and energy supply for the 28 million UK homes as well as businesses. The energy industry invests £13bn annually, delivers £31bn in gross value added on top of the £95bn in economic activity through its supply chain and interaction with other sectors, and supports 738,000 jobs in every corner of the country, activity through its supply chain and interaction with other sectors, and pays £6bn in tax to HMT.

This is a high-level industry view; Energy UK's members may hold different views on particular aspects of the policy consultation. We would be happy to discuss any of the points made in further detail with BEIS or any other interested party if this is considered to be beneficial.

Executive Summary

Energy UK welcomes the Government's intention to provide support for the decarbonisation of the energy system. However, we do not believe that levies on energy bills is the most appropriate approach to funding such support policies. Placing levies on energy bills to fund government policies is inconsistent with a just transition to net zero. as they result in outcomes that are fundamentally regressive in nature. These levies and charges, which amount to 13% of an average dual fuel consumer's bill, hit hardest those least able to afford them. We have, therefore, long called for the Government's environmental and social support policies to be funded through general taxation, and believe it is important to be clear with customers how levies and charges impact their energy bills. In addition, such levies, like the proposed Green Gas Levy (GGL) places all the risk of non-payment and mutualisation upon suppliers and their customers.

Energy UK believes that the fairest distribution of costs will only be achieved through a volumetric approach that BEIS has indicated it will not take forward for the initial years of the scheme due to complexities and time constraints. In principle, we believe that it is important to ensure that the levy is charged on a volumetric approach to minimise market distortions and minimise the detriment faced by customers paying a greater share of the levy based on their actual consumption.[1] We would encourage BEIS to reconsider whether a volumetric approach can be made to work from the outset of the levy. If this is not possible to achieve from the outset, then we would urge BEIS to work proactively with industry to design a robust volumetric methodology to be implemented at the earliest appropriate opportunity to align customers' costs with their usage, and in a way that minimises administrative burdens that might be placed upon suppliers from scheme complexities. If progressed, then any switch to a volumetric approach should be implemented with sufficient advance notice so suppliers can factor this into their financial forecasting.

[1] One Energy UK member has highlighted concerns that the administrative burdens placed upon suppliers by a volumetric approach would be disproportionate to the size of the scheme.

Levy Scope

1. Do you agree with our rationale for applying the levy to all suppliers of gas into the grid (apart from those that supply green gas exclusively)?

While Energy UK welcomes BEIS' intention to ensure a level playing field by not proposing exemptions from the levy for small suppliers, we do not believe that an imposition of another levy on energy bills, overall, is the best approach in order to help fund measures to aid in decarbonisation. We believe that the continued use of energy bills to pay for national policies aimed at supporting the transition to a low carbon economy has a distorting impact on the market and the affordability of energy bills for customers, which would be more effectively and fairly financed through general taxation.

Furthermore, if the cost of environmental schemes such as this are to be passed onto energy customers, rather than being more fairly funded through general taxation, then BEIS should review the impacts on decarbonisation of the distribution of policy costs between electricity and gas bills to assess whether the existing split is appropriate. The current distribution may present a barrier to decarbonisation, particularly to the electrification of heat.

As it is the intention of the levy to incentivise decarbonisation of the gas grid by supporting biomethane producers we agree that suppliers providing 100% green gas should be exempt from the levy. BEIS must clearly set out their interpretation of what qualifies as green gas and how a supplier can demonstrate this. This should be supported by robust reporting and evidential requirements upon any supplier seeking to exercise the 100% green gas levy exemption.

However, we are concerned that BEIS has not fully reviewed the potential impacts the levy may have on suppliers' existing or future plans to supply greater proportions of green gas. For example, there may be a risk that suppliers are disincentivised from supplying greater proportions of green gas if they face higher costs to source green gas, as well as the additional costs of the levy imposed on a per meter basis (or volumetric in the future). As this scheme has been designed to support production of green gas, rather than drive consumer behaviour, this could create a conflict with the existing market for green gas, where customers could be less inclined to source a green gas product if they have to pay any additional costs associated with green gas as well as the levy in full.

We would, therefore, welcome BEIS exploring the practicalities and impacts of a proportional approach towards levy charging to account for a supplier's usage of green gas below to 100% threshold. This assessment would need to include exploring how a supplier might be able to robustly evidence their green gas percentages to mitigate the risk of gaming or undesirable practices that could distort competition, and weigh up its costs and benefits.

2. Do you agree with our rationale for proposing that the Green Gas Levy be charged on a per meter per day basis, according to gas supplier meter points served?

Energy UK recognises the rationale set out in the consultation for BEIS' decision to charge the levy on a per meter per day initially. However, we are not satisfied with the exclusion of a volumetric approach from the outset on the basis of complexities and a lack of time to develop the methodology. Under the per meter per day approach, costs will not be reflective of customers' usage and so many will be at a detriment compared to a volumetric approach.

We would urge BEIS to work with industry to develop an appropriate volumetric approach that can ensure any levy introduced is charged on a fair basis, and reconsider whether this could be included from the outset with an appropriate cost benefit analysis, rather than implementing a sub-optimal methodology with poorer outcomes for customers. If this is not possible from the outset, then we would encourage BEIS to progress work with the development of a volumetric methodology for introduction at the earliest appropriate opportunity. Any such methodology should ensure that the complexities and risks are minimised so that the administrative burdens placed upon suppliers are not disproportionate to the size of the scheme, and the assessment of costs and benefits includes the full gambit of required supplier activities. If progressed, then any switch to a volumetric approach should be implemented with sufficient advance notice so suppliers can factor this into their financial forecasting.

3. Do you agree that the steps outlined above to provide notice to suppliers ahead of the first levy collection, and the notice period for subsequent years, are sufficient?

Energy UK is concerned on the impact that such short notice periods will have on suppliers' ability to price appropriately to recover levy costs in a timely manner. This is especially concerning with non-domestic contracts, which can be up to five years in length (and even agreed years prior), making effective recovery of the levy difficult, if not impossible for the length of contracts already in place.

4. Do you agree with our proposed methodology for calculating the pence per meter per day levy rate?

We would reiterate that Energy UK's preference, in principle, is for BEIS to develop an appropriate volumetric approach to avoid customer detriment from facing disproportionate costs levels compared to their usage.

If this is not possible to achieve from the outset, then we would urge BEIS to work proactively with industry to design a robust volumetric methodology to be implemented at the earliest appropriate opportunity to align customers' costs with their usage, and in a way that minimises administrative burdens that might be placed upon suppliers from scheme complexities. A full assessment of the costs associated with the full gambit of required supplier activities will need to be undertaken to ensure that they are not disproportionate to the overall size of the scheme. If progressed, then any switch to a volumetric approach should be implemented with sufficient advance notice so suppliers can factor this into their financial forecasting.

5. What are your views on how underspend should be managed?

Overall, we would be concerned if underspend in a scheme year was to be a common occurrence under the levy framework, and should be avoided as best possible. However, in the event that it does occur, Energy UK believes that the most appropriate approach may be to carry over any underspend into the calculation of the next year's levy rate.

There may be some complexities to achieving this, however, and we would welcome clarity as to how any calculations will take into account significant changes in a supplier's customer base compared to the previous scheme year.

6. Do you agree with our rationale for proposing that levy payments should be made quarterly?

Energy UK agrees with BEIS' rationale for proposing that levy payments should be made quarterly, in line with our position on reviewing the payment frequency of Renewable Obligation payments to mitigate costs from mutualisation.

However, we do note that with sufficient credit cover in place for the levy obligation, as proposed by BEIS, the risk of mutualisation costs is minimised. BEIS could consider an annual payment if the benefits to supplier administrative costs are sufficient to outweigh any risks.

7. Do you agree with our proposal that gas suppliers should provide quarterly meter point data to Ofgem to inform quarterly levy payment calculations?

Energy UK does not agree with BEIS' proposal for gas suppliers to provide the quarterly meter point data to Ofgem. Under this new obligation, the administrative burden upon suppliers should be minimised as much as possible in order to reduce the costs to customers. We believe that the data should be received centrally from Xoserve so as to not duplicate responsibilities and reduce the complexities involved in administering the scheme.

8. Do you agree with the assumptions made and the costs set out for suppliers of familiarisation with the regulations and administration in the accompanying Impact Assessment (to be published during the consultation period)?

Energy UK's members are best placed to provide input on this question, and supporting evidence, directly to BEIS.

9. Do you agree with the proposal to require all suppliers to secure credit cover?

Energy UK supports the proposal, and believes that it will be important to reduce the costs of mutualisation faced by suppliers and their customers in the event of a supplier failure.

However, we would welcome clarification from BEIS as to whether the costs required to secure sufficient credit cover would be included within the Default Tariff Cap, alongside the levy rate and administrative costs faced by suppliers to implement and comply with the scheme's requirements.

10. Do you agree with the forms of credit cover that we are proposing could be provided by suppliers? Yes/No. If not, what alternatives would you recommend that could also be drawn upon quickly?

Energy UK would welcome BEIS exploring all available options for credit cover available to suppliers where they can be relied upon to provide the robust coverage needed, such as parental company guarantees alongside letters of credit, which are being considered by Ofgem as part of its Supplier Licensing Review credit cover proposals.

In addition, we note that there are some industry code mods that would allow suppliers to meet credit cover requirements via their credit ratings, such as from Experian. We would welcome BEIS considering all avenues available to suppliers to secure cover to ensure that the administrative costs are minimised as much as possible, although we note that there will need to be sufficient scrutiny to ensure that any chosen method is robust.

11. Do you agree that credit cover should be lodged on a quarterly basis, (if there is not already sufficient cover in place), in order to cover the upcoming quarterly levy payment?

Energy UK agrees with the proposal for credit cover to be lodged on a quarterly basis where required.

12. Do you agree with our proposal for a flat rate charge for the levy, without tiering, as part of a per meter point levy design?

As a point of principle, we do not believe that levies on energy bills is the most appropriate approach to funding such support policies as they are regressive in nature. We have long called for the Government's environmental and social support policies to be funded through general taxation. In addition, such a levy places all the risk of non-payment and mutualisation upon suppliers and their customers.

Energy UK believes that, as currently proposed, the flat rate charge for the levy will be a regressive charge, unfairly impacting the bills of domestic and smaller non-domestic consumers., We also do not believe that either of the proposals for tiering explored by BEIS would be much more beneficial than the flat rate without tiering. However, there may be other tiering options available to BEIS to explore that improves the situation for customers overall above the flat rate proposals in advance of a move to a volumetric approach and Energy UK's members will provide details of these alternatives in their individual responses where appropriate.

In principle, we believe that levy costs should be fairly distributed based upon a customer's gas usage. We would again reiterate that a volumetric approach is the fairest methodology on which to base this levy and we would encourage BEIS to proactively work with industry to ensure that an appropriate and proportionate methodology can be developed and introduced.

13. What are your views on the impact that the Green Gas Levy could have on billpayers?

Energy UK's members are best placed to provide evidence directly on the impact of the levy on their customers.

However, we would note a concern that the levy is not consumer-centric and, alongside other Government policies funded through energy bills, is regressive in nature. We would urge BEIS and Ofgem, through its administration of the scheme, to ensure there is sufficient communications to customers about the purpose of the levy in funding the transition to a low carbon energy system.

16. Do you agree with the proposed mutualisation process?

As highlighted previously, Energy UK does not support the general use of energy bills as a method of raising funds for Government policies. A fairer, more appropriate approach would be through general taxation. The risk of mutualisation, and the costs placed across suppliers in the event of a supplier failure, is a key reason as to why levies on energy bills are an inappropriate approach to funding Government policies.

Overall, the risk of mutualisation should be minimised as much as possible to reduce the costs to suppliers and their customers in the event of non-payment or supplier failure. As a result, we are supportive of BEIS' proposals for quarterly payments and requirement for credit cover.

17. Do you agree with the proposal that Ofgem may report and publish information on non-compliance and enforcement action? Yes/No. Please provide evidence to support your response.

AND

18. Do you have any views on how reporting can be used to best contribute to compliance with scheme obligations?

Energy UK agrees with the proposal. Our members are best placed to provide comments in their individual responses.

19. Do agree with the proposed approach of applying interest to late payments?

Energy UK agrees with the proposed approach.

20. Do you agree with the proposed range of interest applied to late payments?

Energy UK agrees with the proposed approach.

21. Do you agree with the proposed approach for Ofgem to issue financial penalties, including the proposed maximum limit? Yes/No. Please provide evidence to support your response.

Energy UK agrees with the proposed approach.

22. What do you consider the maximum fine should be where a gas supplier has either a low turnover or no turnover at all? Please provide evidence to support your response.

Energy UK does not have a view on the specific amount of a maximum fine, but would suggest that it remains proportionate to the size of the GGL scheme overall.

23. Do you have any views regarding the pursuance of debts through the courts by Ofgem?

Energy UK agrees with BEIS' proposal.

24. Do you agree with more closely aligning levy costs with consumption through a volumetric approach, as the scheme develops? Yes/No. Please provide evidence to support your response.

AND

25. Which of the three options set out above would be the most suitable for designing a volumetric levy? We would welcome views on how to overcome any of the issues with those approaches that have been identified.

AND

26. Are there any feasible alternatives to the proposals set out in this chapter for achieving a levy that is proportionate to gas volumes? Yes/No. Please provide evidence to support your response.

AND

27. How could we ensure that a volumetric levy is designed in a way that promotes a competitive gas supply market and minimises costs, administrative burden, and other impacts on suppliers?

Energy UK continues to believe that a volumetric design of the levy is the fairest methodology on which to base charges, and ensure a fair distribution of costs across suppliers and customers. It will be important to ensure that any methodology on which a volumetric approach is based does not introduce disproportionate complexities and administrative burdens to suppliers that would outweigh the costs benefits to customers, and is implemented with sufficient advance notice so suppliers can factor this into their financial forecasting.

Energy UK's members will be bet placed to provide views and supporting evidence on the proposed methodologies outlined in the consultation in their individual responses.

If you would like to discuss the above or any other related matters, please contact me directly on 020 7747 2931 or at steve.kirkwood@energy-uk.org.uk.